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C O N F I D E N T I A L AMMAN 002941

SIPDIS

TREASURY FOR PIPATANAGUL

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TAGS: [ETTC](#) [ENRG](#) [IZ](#) [JO](#)

SUBJECT: JORDAN-IRAQ OIL PIPELINE UPDATE

REF: A. AMMAN 185

[B](#). 01 AMMAN 4049

[C](#). AMMAN 1782

Classified By: AMBASSADOR EDWARD W. GNEHM, REASONS 1.5 (B,D)

[1](#)1. (c) Summary: The GOJ recently extended the deadline for final bids on a proposed crude oil pipeline connecting oil fields near Baghdad to the Zarqa refinery. The proposed 100,000 bpd pipeline (which equals Jordan's current oil consumption) would be expandable to 150,000 bpd once the Zarqa refinery is upgraded to handle the capacity. While the GOJ wants the project to move forward for cost-saving reasons, investors are showing caution in finalizing bids for the program given the uncertainties arising from Iraq sanctions issues. End summary.

[1](#)2. (u) The Jordan Times reported on May 27 that the GOJ had extended the bid deadline for the 35 bidders on the Jordanian portion of a proposed crude oil pipeline from Baghdad to the Zarqa refinery. The new bid deadline for the \$365 million BOOT (Build, Own, Operate, Transfer) project is July 15. According to the Times, this second deadline extension was granted at the request of the bidders, who asked for more time to conduct feasibility studies. The GOJ expects construction to be completed 15 months after the winning bid is announced.

[1](#)3. (c) According to Energy Minister Mohammed Batayneh, the capacity of the pipeline would be 100,000 bpd, expandable to 150,000 bpd with additional pumping stations (refs a,b). Current Jordanian demand is 100,000 bpd, with estimated growth of 7-8% per year (ref c). The Zarqa refinery will likely hit its refining capacity of approximately 115,000 bpd by 2005. A February 19 Jordan Times article erroneously listed capacity at 350,000 bpd. Energy Ministry Secretary General Azmi Khreisat said the GOJ had discussed the possibility of one day building an export pipeline with a 350,000 bpd capacity. He confirmed to us, though, that the only existent concrete plans for the pipeline are for the 100,000 bpd figure, with expansion to 150,000 only following upgrades of the Zarqa refinery - upgrades that would probably take a decade to complete.

[1](#)4. (c) If completed, the pipeline would afford Jordan significant savings over its current crude transport system. Batayneh estimated cost savings of \$6/ton (equal to \$27 million this year), plus recuperation of almost 7% of oil imports that are currently lost to inefficiencies in the transport system, including tanker accidents on the highway (ref b). Environmental savings have not been calculated. (Note: The claim of 7% loss of oil due to spillage is much higher than we can verify independently from observing tanker traffic on the Baghdad-Zarqa highway. End note.)

[1](#)5. (c) Comment: This pipeline plan has been on the books for years. The fact that interested bidders have asked for another extension to continue feasibility studies is an indicator that bidders are serious, but are being cautious in light of what may be a raft of technical and legal issues. Such issues could include limitations on Iraq's ability to export oil under the oil-for-food program and strict procedural guidelines from the UNSC for such exports, all of which could call into question the long-term commercial viability of the project. Another complicating factor could be uncertainties concerning the Jordan-Iraq oil protocol which is subject to renegotiation annually, and which in any event could be radically affected by any U.S.-Iraq confrontation. Due to the complexity of such issues, it will probably be some time before real progress is made on the project -- responsible companies will be cautious about building one half of a pipeline to carry oil from a country under UN sanctions. Nevertheless, the GOJ remains committed if for no other reason than to save between \$30 and \$78 million per year compared to the current system.

Gnehm